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DEMOCRATIC REPUBLIC OF TIMOR-LESTE

OFFICE OF THE PRIME MINISTER

Ref No. 0711 / GPM/V/2010

His Excellency
Speaker of the National Parliament
Mr. Fernando Lasama de Araújo
National Parliament
Dili

Excellency,

Following the submission for consideration and approval of the National Parliament, the draft law on first amendment to Law No. 15/2009 approving the State Budget for 2010, designated for amending the State Budget for 2010, I come to express to Your Excellency the reasons for the **Transfer of Funds from the Petroleum Fund**, which is necessary considering the amount of funding above the Estimated Sustainable Income to meet current and emerging issues **that will keep the country in the direction, already expressed in accelerated economic growth for the long term.**

Thus, in accordance with Article 9 of the of the Petroleum Fund Law, this letter comes to justify the need for these funds for the long-term interests of Timor-Leste and its people, and soon we will submit a detailed report on the impact of transferring a larger amount on the ESI calculation for future years.

In addition to a prudent and responsible management of valuable petroleum resources in Timor-Leste, the Government has invested heavily in security, stability and national development.

The successes achieved by this Government, in close cooperation with other organs of sovereignty, are already well known. The climate of greater peace that we live in recent years is only possible because we have resolved some of the great social and political problems, but also and mainly because there was greater investment in public investment, from infrastructure to agriculture, including social activities.

We gather national consensus when we assume that a post-conflict society like ours, requires a different approach than normal approaches in normal situations. Democracy does not work on an empty stomach. Hunger nurtures frustration, unemployment and promotes psychological fatigue, both trigger the loss of confidence of people in State institutions.

The payment of pensions to veterans and the allowance for the elderly, health investment with visible impacts on the current indicators, the implementation of "bag of mothers" and protecting food security, in addition to solving problems related to the 2006 crisis, were some key measures that the Government had to take since taking office.

However, all institutions of the state undertook a radical reform of the previous financial management, crucial to effective governance in terms of practical results and the proper

implementation of budgets, which of course is still ongoing, but that gives us confidence that the transformation of financial management processes and improved administrative efficiency, associated with fighting corruption, not only ensure improved service delivery to communities as a major redistribution of public goods.

We're still confident because we have a higher rate of economic growth during this mandate. Increased the rate of economic growth, at a two-digit rate from 2007, and in 2008 was 12.8% and 12.2% in 2009.

However, although we achieved this progress by being innovative and as a great result of joint efforts, it is still insufficient, compared with the expectations of people regarding their basic needs.

In 2010 the priorities presented were:

- Infrastructure (roads, water and electricity)
- Food Security with a focus on productivity
- Developing Human Capital
- Access to Justice
- Provide more decentralized services
- Good Governance
- Public Security

It is undisputed that all these measures are of utmost importance for developing medium and long-term consequence for the Country.

Investment is the key word to create the conditions necessary for improving the living conditions of the people. The capital needed to make this investment exists and is available in the Petroleum Fund, this fund is still abstract for the People and whose benefits may only be materialized and truly enjoyed by concrete investments in human capital, agriculture, industry, infrastructure and social services like education and health assistance to the most vulnerable.

The best return to the Country, is not the dollar signs are embodied in U.S. Treasury Bonds, but the happiness of the Timorese. Timorese who need decent houses, they ask that the children can go to school, calling for more health care, access to markets, light and water as the most pressing needs.

Only then, Timor-Leste can get out of widespread poverty, the cause of social discontent which is easily used by internal or external political actors, that ultimately could lead to national instability.

I have said before and I reiterate that it is possible to reconcile the need to invest now in the current generation, spending part of the resources in a disciplined and responsible manner and in accordance with national interests, for future generations, by investing in productive sectors that will have economic returns in coming years.

It is still too recent for all Timor-Leste people who have inherited land in ashes and open wounds in the hearts of the people. If the previous governments were able to build a state from nothing, they were not able to meet the aspirations of the people, forged by decades of sacrifices, due to lack of financial resources.

This Government, mindful of the lessons of the past, believes that complex problems require complex solutions, and that new national, regional and international circumstances require constant adaptation.

It should then consider that: the economies of neighboring countries to Timor-Leste are recovering from the financial crisis; average oil prices, though often volatile, have increased when compared

with the year 2009 and are now more higher than estimated for the 2010 budget.

Moreover, the supply of high-yield seeds, fertilizers and tractors contributed to increased production and productivity of the agricultural sector. The private sector also began contributing to GDP growth, especially in telecommunications and transport, while at the same time embracing development as the national cause, being truly committed to develop and consequently to create jobs and generate income.

Timor-Leste can still boast of having one of the lowest crime rates in the world, enabling those who visit us to feel safe and confident in an effective climate of security. As a result, the number of tourists and potential investors who visit our country has increased significantly.

Thus, the Government believes that Timor-Leste is at a stage that cannot stop. You can not hesitate, because increasing public funding can bring real growth and national development.

Besides this, the State Budget is always an estimate of revenue and expenditure for the financial year under consideration. For this reason, the Law allows amendments, and therefore it is legally possible to rectify what was estimated to reach 2010. This is why the Government cannot but consider using the instruments it has at its disposal to quickly provide better living conditions for present and future generations.

Therefore, we consider not only reasonable as imperative to place the for the appreciation of Distinguished Deputies, a transfer from the Petroleum Fund above the Estimated Sustainable Income, especially to invest in:

- Infrastructure aimed at better connections between citizens and markets through the provision of energy and road networks;
- Food security by ensuring the importation of rice and increasing domestic agricultural productivity allowing indirect promotion of small businesses in these sectors;
- On social justice, protecting the most vulnerable and dignifying those who contributed to the values that we enjoy today: the noblest of Timorese freedom, dignity and independence.

As a result of the foregoing and following the successful implementation of Government policies since 2007, we propose to amend the existing budget to allow the continuation and reinforcement of measures of vital importance to sustainable development through the authorization of 2010 spending levels which exceed the Estimated Sustainable Income.

Whereas the certification report from the Independent Auditor will be submitted to the National Parliament as soon as available, please find attached as an annex, the table shows the Estimated Sustainable Income reduction for the following fiscal 2010, according to line b) of Article 9 .

Accept Your Excellency my highest consideration and esteem.

Dili, May 31, 2010

/s/

Kay Rala Xanana Gusmão

Prime Minister of the Democratic Republic of Timor-Leste

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Democratic Republic of Timor-Leste
Ministry of Finance
Cabinet of the Minister

"Goodbye Conflict, Welcome Development

His Excellency
Kay Rala Xanana Gusmão
Prime Minister
Democratic Republic of Timor-Leste

Date, 31-05-2010

Oficio n.°208/GMF/V/2010

Subject: Requirements for transfer from the Petroleum Fund

Whereas the report produced by the Independent Auditor to certify the reduction in Sustainable Income, in accordance with paragraph b) of Article 9.'s Petroleum Fund Act, has not been submitted to this Ministry, I hereby inform you that the same will be sent to His Excellency as it becomes available.

However, in accordance with sub-paragraph b) of Article 9. The table below shows the lowering of the Estimated Sustainable Income for the fiscal years following the 2010 as a result of the proposed transfer of the Petroleum Fund an amount up Estimated Sustainable Income for 2010:

Fiscal Year	**Estimated Sustainable Income withdrawals in 2010**	
	$502 million	**$811 million**
2011	499	490
2012	497	488
2013	495	486
2014	493	484
2015	491	481
2016	489	479
2017	486	477
2018	484	475
2019	482	473
2020	480	471
2021	478	469
2022	476	467
2023	474	465
2024	472	463
2025	470	461

Reiterating that, according to a and c of Article 9 of the Independent Auditor shall certify the reduction in Sustainable Income, please note that the report endorsed will be submitted to the National Parliament, as it becomes available.

We also inform that all calculations were carried out by technical experts from the Ministry of Finance and with external professional assistance.

/s/
Emília Pires
Minister of Finance